

A POST-PANDEMIC WORLD

The Lasting Effects of COVID-19 on Consumer Behavior and Preference in Retailing and Restaurants

What does the post-Covid19 world look like? The question is impossible to ignore. There are one thousand ways to phrase it, but in the end, it's the same question. The only question. And yet, even with the collective brain power and insight of nearly every industry expert, economic guru and joe-schmoe across the board, there are no straightforward answers.

As we near mid-May, states and localities across the nation are beginning to lift various stay-at-home and shelter-in-place orders. Despite the political or medical reasoning behind them, most of these re-opening decisions come with a wide-range of guidelines and requirements. In the Kansas City metropolitan area, we are doing our best to adhere to the requirements of the two states, five counties and countless municipalities that make up the KC metro. Occupancy limits, required face coverings and the magical six-foot social distance rules are the norm, as well as strict limits on how certain businesses are able to operate, if at all. It's safe to assume that the "re-opening" of America will be a process, and one that looks different depending on where you live.

We could wrack our brains thinking about the various ways retailers, restaurants and service-focused businesses are navigating the currently typhoon-like waters, but let's take a step back and look up to the big picture. Let's fast forward to the next phase of recovery, whenever that may be. What are the lasting effects of the pandemic that will likely fuel consumer behavior for the foreseeable future?

Two primary needs seem to be dominating the consumer outlook on re-opening: the need for physical safety and social connection. While these normally fall adjacent to one another in a hierarchy of human needs, never before have they been at such odds with each other.

In the recent past, the shops, restaurants and businesses we visited as consumers have had a relatively low threshold for satisfying customers' need to feel safe. Today, 95% of consumers want companies to implement physical protection and distancing measures to help keep them healthy¹. Though dining out is second only to family gatherings as America's "most missed" activities², restaurants face even more stringent expectations from the customers who are striving to support them. In a Techomic poll³ focused on the restaurant operation in a post-COVID world, nearly 55% of all consumers surveyed expect to see more hand sanitizer dispensers to make them feel "safe and comfortable" inside restaurants. Additionally, 56% said they'd like to see staff "visibly cleaning" high-touch areas³. Also high on the list of diner demands are having all employees wear gloves, seeing fewer tables, and single-use condiments, utensils and menus.

Despite the additional measures in place to enhance the health and safety of customers, some impacts on consumer behavior may be irreversible. The trend toward online shopping was overwhelming before, and the pandemic has likely solidified the remaining late adapters to the practice. Thirty percent of people plan to shop more online in the future than before the COVID-19 crisis, including 28.3% of those 65+ and 33.8% of ages 18-24¹.

We are, and always will be, a social culture. While we are fighting to meet our physical need

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KANSAS CITY SALES & LEASING DATA

KC MSA RETAIL STATISTICS¹



| Total GLA (s.f.) ▲ 0.05% | | Avg. Lease Rate ▲ 3.6% | | Avg. Occupancy ▼ 0.1% | |
|--------------------------|-------------|------------------------|---------|-----------------------|-------|
| Q1 2020 | 161,065,228 | Q1 2020 | \$12.97 | Q1 2020 | 94.6% |
| Q1 2019 | 160,977,624 | Q1 2019 | \$12.52 | Q1 2019 | 94.7% |

LARGEST RETAIL LEASE SIGNINGS - Q1 2020¹



| Submarket | Tenant | Size (sf) |
|--|-----------|-----------|
| Lincoln Lane - Gardner, KS | Unknown | 60,000 |
| Regency Park Shopping Center - Overland Park, KS | Unknown | 33,860 |
| 354 Hawthorne Blvd. - Warrensburg, MO | Marshalls | 23,500 |

AVG. VACANCY AND LEASE RATE BY TYPE¹



RETAIL

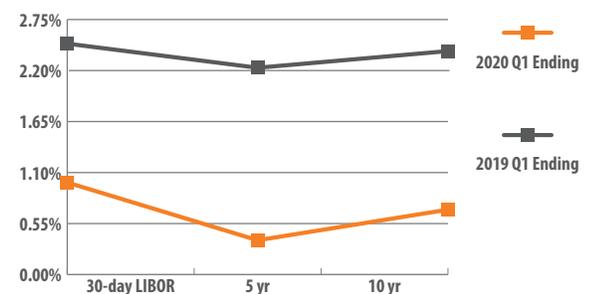
OFFICE

INDUSTRIAL

| Avg. Lease Rate ▲ 3.6% | | Avg. Lease Rate ▲ 5.4% | | Avg. Lease Rate ▲ 2.8% | |
|------------------------|---------|------------------------|---------|------------------------|--------|
| Q1 2020 | \$12.97 | Q1 2020 | \$20.70 | Q1 2020 | \$4.41 |
| Q1 2019 | \$12.52 | Q1 2019 | \$19.65 | Q1 2019 | \$4.29 |
| Avg. Vacancy ▲ 0.1% | | Avg. Vacancy ▲ 0.6% | | Avg. Vacancy ▼ 0.2% | |
| Q1 2020 | 5.4% | Q1 2020 | 7.1% | Q1 2020 | 4.5% |
| Q1 2019 | 5.3% | Q1 2019 | 6.5% | Q1 2019 | 4.7% |

NATIONAL & REGIONAL TRENDS

TREASURY YIELD CURVE²



US FOOD AND RETAIL SALES (IN MILLIONS)³

| \$1,540,167 | | | |
|-------------|-------------|-------------|-------------|
| 2020 Q1 | | | |
| \$1,522,507 | \$1,482,162 | \$1,420,107 | \$1,352,012 |
| 2019 Q1 | 2018 Q1 | 2017 Q1 | 2016 Q1 |

UNEMPLOYMENT RATE⁴

CONSUMER PRICE INDEX⁴

| March | 2019 | 2020 | 2019 | Jan. | Feb. | March |
|---------|------|------|---------------|---------|---------|---------|
| Midwest | 3.7% | 4.1% | Midwest | 239.690 | 240.421 | 239.163 |
| U.S. | 3.8% | 4.4% | U.S. City Avg | 257.971 | 258.678 | 258.115 |

THE ORANGE REPORT

YOUR SOURCE FOR KANSAS CITY COMMERCIAL PROPERTY INFORMATION

FIRST QUARTER 2020

CONTINUED....

for health and safety, we are equally fighting to fulfill our need for belonging and genuine connection. Twenty two percent of Americans are experiencing anxiety from being confined to their house¹. A quick look at the news makes it obvious that society is ready to get back to “normal activity” including gathering, shopping and eating out. Forty-one percent of consumers said they’re likely to eat in a restaurant within 30 days of government officials declaring that the infection rate for COVID-19 has started to decelerate².

It would seem that the need for social connection in this pandemic climate is deeper than simply connecting to one another. Consumers are being forced, either by government mandate or internal conflict, to be more selective in the businesses they choose to support. We are collectively reevaluating what is important to us, and consequently, choosing companies we feel good about supporting. Above all else, we are forming preference for transparency, authenticity and social responsibility. We want to do business with companies we trust and feel a connection to. Today, a third of consumers strongly agree with the suggestion that they will reappraise the things they value most and not take certain things for granted⁴. Thirty-eight percent of consumers say they will support local businesses more in the future⁵. Seventy-one percent of people say if they perceive that a brand is putting profit over people [during this pandemic], they will lose trust in that brand forever⁶.

It’s nearly impossible to predict the overall social or economic ramifications of an event like the Covid19 Pandemic until it is well in our rear-view mirror. The effects are massive and compounding daily. What we can say with certainty is that there will be (and already is) an effect on how we as a society think, act and respond, and ultimately how we continue with our “normal” lives. At the end of the day, we as humans have needs and look to our resources to fulfill them. As has always been true, successful businesses identify and adapt to the needs of its consumers, no matter the economic climate in which it exists.

About LANE4 Property Group

LANE4 provides our clients the best position from which to succeed. We offer an advantage in tenant representation, project leasing, property management, investment sales, receivership, project management, and development. These comprehensive services allow our clients to streamline their time and optimize their investments. From the initial market analysis through grand opening and operation, the team at LANE4 executes each step of the process with skill and professionalism.

Our team has forged strong relationships with our constituents: tenants, investors, municipalities, architects, engineers, attorneys, contractors, and developers. This experience, dedication, and focus – combined with creativity and passion – is the LANE4 formula that maximizes our partners’ results.

In-Text Sources: ¹Prosper Insight and Analytics ²The Harris Poll: Covid19 Tracker ³Restaurant Business Online ⁴Ernst and Young ⁵AMC Global Research ⁶Edelman Trust Barometer

Real Estate and Economic Trend Data Sources: ¹CoStar Property: Analytic History. Retail and industrial lease rates based on quoted all service types. Office lease rate based on quoted full-service lease type. ²30-day LIBOR: Intercontinental Exchange. Based on USD. US Interest rates: US Dept. of Treasury Daily Yield Curve. Based on last business day of quarter. ³U.S. Census Bureau: Estimated monthly. ⁴U.S. Bureau of Labor Statistics. Unemployment rates seasonally adjusted. ⁵CoStar Property: Analytic History. Lease rate/Sf based on quoted rates. ⁶Home Builders Association of Greater Kansas City.

RESIDENTIAL AND MULTIFAMILY

KC MSA MULTIFAMILY STATISTICS⁵



1 BED



2 BEDS



3 BEDS

| Total Units | | Total Units | | Total Units | |
|----------------------------|--------|----------------------------|--------|----------------------------|--------|
| Q1 2020 | 90,908 | Q1 2020 | 90,806 | Q1 2020 | 21,883 |
| Q1 2019 | 89,420 | Q1 2019 | 89,455 | Q1 2019 | 21,475 |
| Avg. Lease Rate/SF ▲ 3.45% | | Avg. Lease Rate/SF ▲ 4.21% | | Avg. Lease Rate/SF ▲ 3.53% | |
| Q1 2020 | \$1.20 | Q1 2020 | \$0.99 | Q1 2020 | \$0.88 |
| Q1 2019 | \$1.16 | Q1 2019 | \$0.95 | Q1 2019 | \$0.85 |
| Avg. Vacancy ▼ 0.1% | | Avg. Vacancy ▼ 0.4% | | Avg. Vacancy = 0.0% | |
| Q1 2020 | 7.0% | Q1 2020 | 7.0% | Q1 2020 | 7.8% |
| Q1 2019 | 7.1% | Q1 2019 | 7.4% | Q1 2019 | 7.8% |

RESIDENTIAL BUILDING PERMITS YEAR END⁶

| County | Single Family | Multifamily | 2019 Year End | 2018 Year End | % Chg |
|---------------------|---------------|-------------|---------------|---------------|--------|
| Cass County | 204 | 0 | 204 | 48 | ▲ 325% |
| Clay County | 168 | 315 | 483 | 112 | ▲ 331% |
| Jackson County | 225 | 116 | 341 | 538 | ▼ -37% |
| Platte County | 111 | 0 | 111 | 58 | ▲ 91% |
| Johnson County | 392 | 404 | 796 | 483 | ▲ 65% |
| Leavenworth County | 64 | 0 | 64 | 36 | ▲ 78% |
| Miami County | 20 | 0 | 20 | 119 | ▼ -83% |
| Wyandotte County | 84 | 0 | 84 | 21 | ▲ 300% |
| Kansas City Region* | 1,268 | 835 | 2,103 | 1,671 | ▲ 26% |

For. Your. Information.

It is worth noting that the information contained in this edition of the LANE4 Orange Report follows our regular schedule and includes data from the first quarter of 2020 including the months of January, February and March. Data was gathered as it was available and is current as of May 5, 2020.

Stay-at-home orders began taking place in some states as early as March 19, and by March 26 a majority of states had a stay-at-home order of some degree in place in at least one major municipality.

We expect that the effects of the Coronavirus Pandemic and subsequent stay-at-home orders on the economy and real estate industry will be much more evident in our Second Quarter, which will be published on or around August 1, 2020.

Find all of LANE4’s publications here: www.lane4group.com/ournews

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